

**REPORT OF THE AUDIT OF THE
MADISON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**



**CRIT LUALLEN
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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Kent Clark, Madison County Judge/Executive

Honorable Cecil "Dude" Cochran, Madison County Sheriff

Members of the Madison County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountants, presents the statement of revenues, expenditures, and excess fees of the County Sheriff of Madison County, Kentucky, for the year ended December 31, 2003.

We engaged Ross & Company, PLLC to perform the audit of this statement. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Madison County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen
Auditor of Public Accounts

Enclosure



**REPORT OF THE AUDIT OF THE
MADISON COUNTY
SHERIFF**

**For The Year Ended
December 31, 2003**

ROSS & COMPANY, PLLC
Certified Public Accountants
800 Envoy Circle
Louisville, KY
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE MADISON COUNTY SHERIFF

**For The Year Ended
December 31, 2003**

Ross & Company, PLLC has completed the Madison County Sheriff's audit for the year ended December 31, 2003. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the County Sheriff and the revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting described in Note 1.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and quarterly paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government. This is the first year that Madison County is considered a county with over 70,000 county residents.

Report Comment:

- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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The Honorable Kent Clark, Madison County Judge/Executive
Honorable Cecil "Dude" Cochran, Madison County Sheriff
Members of the Madison County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the County Sheriff of Madison County, Kentucky, and the statement of revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2003. These financial statements are the responsibility of the County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the County Sheriff and the revenues, expenditures, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2003, in conformity with the regulatory basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 31, 2005, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.


The Honorable Kent Clark, Madison County Judge/Executive
Honorable Cecil "Dude" Cochran, Madison County Sheriff
Members of the Madison County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the County Sheriff and Fiscal Court of Madison County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive, flowing style.

Ross & Company, PLLC

Audit fieldwork completed -
January 31, 2005

MADISON COUNTY
 CECIL "DUDE" COCHRAN, COUNTY SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2003

Revenues

State Grants		\$	46,191
State Fees for Services			65,674
Circuit Court Clerk			
Arrest Fees	\$	5,666	
Sheriff's Security Service		<u>42,082</u>	47,748
County Clerk			5,396
Commission on Taxes			645,117
Fees Collected for Services:			
Auto Inspections	\$	25,618	
Accident and Police Reports		529	
Serving Papers		89,919	
Carrying Concealed Deadly Weapon Permits		14,475	
Sheriff's Advertising Fees		2,490	
Tax Penalty Fees		94,108	
Sheriff's Sale		<u>6,680</u>	233,819
Other Revenues:			
Conveying Prisoners	\$	6,970	
Fingerprints		285	
Miscellaneous		<u>2,425</u>	9,680
Interest Earned			<u>650</u>
Total Revenues		\$	1,054,275

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
 CECIL "DUDE" COCHRAN, COUNTY SHERIFF
 STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
 For The Year Ended December 31, 2003
 (Continued)

Expenditures

Payments to State:

Carrying Concealed Deadly Weapon Permits		\$	10,285
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Other Expenditures:

Conveying Prisoners	\$	3,002	
County Collections		5,910	
Other		393	9,305
		<u> </u>	<u> </u>

Total Allowable Expenditures		\$	19,590
		<u> </u>	<u> </u>

Net Revenues		\$	1,034,685
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Payments to State Treasurer:

75% Operating Fund	\$	870,102	
25% County Fund		164,583	1,034,685
		<u> </u>	<u> </u>

Balance Due at Completion of Audit		\$	0
		<u> </u>	<u> </u>

MADISON COUNTY
 CECIL "DUDE" COCHRAN, COUNTY SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2003

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2003	\$	\$	\$
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	870,102		870,102
Fees Paid to State - County Funds (25%)		164,583	164,583
Total Funds Available	\$ 870,102	\$ 164,583	\$ 1,034,685
<u>Expenditures</u>			
Personal Services-			
Sheriff's Statutory Maximum	\$ 81,968	\$	\$ 81,968
Deputies' Salaries	593,594		593,594
Part-Time Salaries	25,388		25,388
Other Salaries	19,919		19,919
Overtime Gross	10,968		10,968
Employee Benefits-			
Employer's Share Social Security	50,339		50,339
Employer's Share Retirement	102,909		102,909
Employer's Paid Health Insurance	49,419		49,419
Operating Expenses	95,845		95,845
Capital Outlay	623		623
Payments to County Treasurer		164,583	164,583
Total Expenditures	\$ 1,030,972	\$ 164,583	\$ 1,195,555
Fund Balance - December 31, 2003	\$ (160,870)	\$ 0	\$ (160,870)

The accompanying notes are an integral part of the financial statements.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the County Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2003 services
- Reimbursements for 2003 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2003
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2003
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent for the first six months and 7.34 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent for the first six months of the year and 18.51 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2003, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Forfeited Federal Funds

The Madison County Sheriff keeps a forfeited Federal Funds account. These funds are used in law-enforcement activities against drugs and are not considered as excess fees. As of January 1, 2003, the Sheriff had a balance of \$593 in the Forfeited Funds account. In 2003, the Sheriff received \$2,910 for the Forfeited Funds account. He expended \$3,225. This left a balance as of December 31, 2003 of \$278.

MADISON COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2003
(Continued)

Note 5. Grant Funds Account

During 2001, the Madison County Sheriff received a Local Law Enforcement Grant for equipment from the Kentucky Justice Cabinet. The balance as of January 1, 2003 was \$2. There was no activity in the account for 2003.

Note 6. Reimbursed Expenses

The amount deposited to the County Sheriff's Operating Fund (75%) with the State Treasurer included reimbursed expenses. These reimbursed expenses include payments from the state and county in addition to miscellaneous revenues. The following were reimbursed expenses, which were 100% credited to the Sheriff's Operating Fund.

<u>Category</u>	<u>Amount</u>
100% Fee	\$ 376,353

COMMENT AND RECOMMENDATION

MADISON COUNTY
CECIL "DUDE" COCHRAN, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2003

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically compare a daily bank deposit to the daily checkout sheet and then compare the daily checkout sheet to the receipts ledger. Any differences should be reconciled. He could document this by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The Sheriff should reconcile monthly reports to source documents and receipts and disbursements ledgers.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled. The Sheriff could document this by initialing the bank reconciliation and the balance in the checkbook.
- The Sheriff should approve all disbursements and approve all checks.

Sheriff's Response:

None

PRIOR YEAR:

- Lacks Adequate Segregation Of Duties

This comment was not corrected and is repeated in the current year.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Kent Clark, Madison County Judge/Executive
Honorable Cecil "Dude" Cochran, Madison County Sheriff
Members of the Madison County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Madison County Sheriff for the year ended December 31, 2003, and have issued our report thereon dated January 31, 2005. This was a special report on the County Sheriff's financial statements prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Madison County Sheriff's financial statements for the year ended December 31, 2003, are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Madison County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

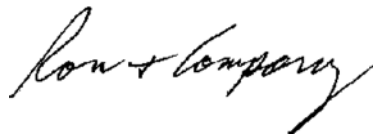
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company", written in black ink.

Ross & Company, PLLC

Audit fieldwork completed -
January 31, 2005

